

# Comptroller's Quarterly

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## FISCAL 2014 CONTINUES CLIMB OUT OF FINANCIAL HOLE

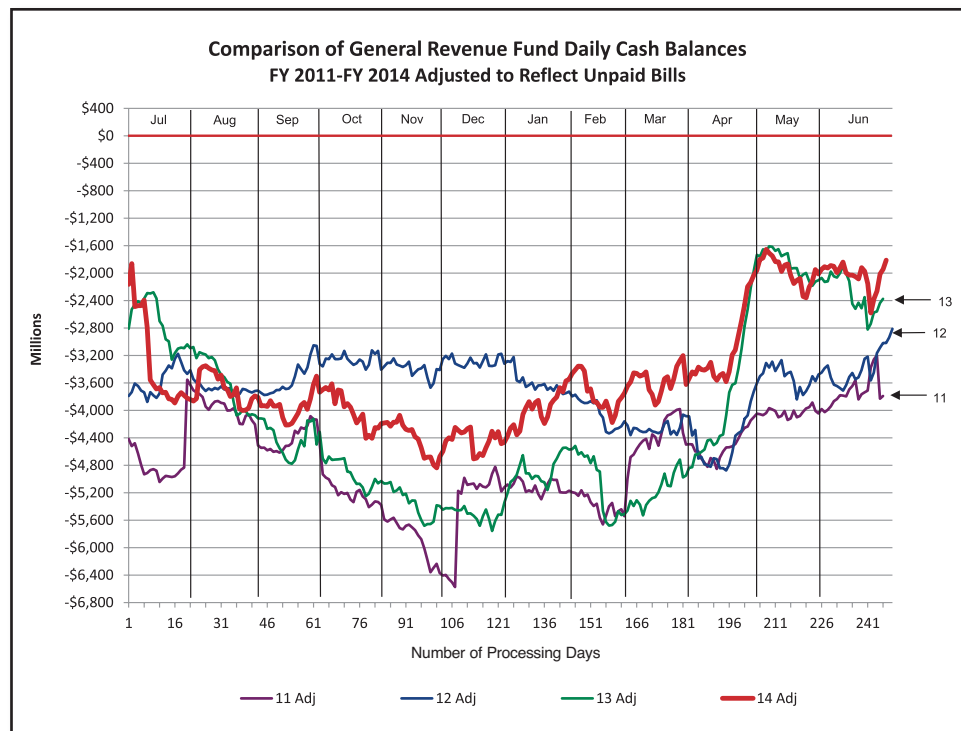
*Current budget causes State to fall back in*

Illinois reduced the backlog at the Comptroller's Office (IOC) by \$876 million during fiscal year 2014. This improvement is expected to be reversed with the budget passed for fiscal year 2015 as revenues are expected to drop off when the income tax rate begins to step down on January 1, 2015. IOC ended the year holding \$2.404 billion in payables on June 30th, down from the end of fiscal year 2013, when the state was holding \$3.280 billion.

The backlog of bills at the IOC includes only what has been submitted for processing and does not include what is being held at the agencies. When estimates of bills being held at state agencies were added to what was held at IOC, the state bill backlog was approximately \$4.6 billion.

Breaking out \$2.404 billion on hold at IOC by fund, \$1.709 billion was General Revenue Fund (GRF) bills, \$321 million from the Education Assistance Fund and \$373 million from the Common School Fund. The chart of adjusted General Revenue Fund (GRF) balances on June 30, 2014 shows a negative balance of \$1.697 billion. At the same time last year, the adjusted GRF balance was a negative \$2.162 billion.

Base revenues exceeded forecasters' expectations, which directly led to the decline in the backlog. Income tax receipts had been projected to decline due to the income tax surge that occurred in April 2013. But individual income tax receipts increased and corporate barely declined. In fiscal year 2014, base revenues grew \$440



million, or 1.2 percent, while base expenditures grew \$767 million, or 2.1 percent.

### BASE REVENUES

Revenue growth for fiscal year 2014 was due primarily to increases in sales tax receipts and a transfer in from the Income Tax Refund Fund. General Funds total base revenue increased \$440 million, or 1.2 percent, through the end of June. Factors impacting the state's base revenues for fiscal year 2014 include:

- **INDIVIDUAL INCOME TAXES:** Individual income tax receipts increased \$104 million, or 0.6 percent, through fis-

cal year 2014. The change in the percentage allocated to the Refund Fund impacted receipts. Specifically, the share of individual income tax receipts set-aside for refunds decreased from 9.75 percent to 9.5 percent, increasing the remaining share for the General Funds.

- **CORPORATE INCOME TAXES:** Corporate income tax revenues decreased by \$13 million, or 0.4 percent, through the fiscal year. Deposits to the Refund Fund from the corporate income taxes were at a lower rate in fiscal year 2014 masking part of the decline from fiscal year 2013. The decline in gross

corporate income tax receipts was \$39 million or 1.1 percent.

- **SALES TAX:** It appears economic growth is continuing, as sales tax revenues increased by \$321 million, or 4.4 percent.
- **TRANSFERS:** A transfer of \$397 million from the Income Tax Refund Fund was the leading factor in the growth in transfers in this fiscal year. This transfer offset the \$214 million decline in transfers from the FY13/FY14 Backlog Payment Fund. Lottery Fund transfers were up \$12 million, or 1.8 percent, and riverboat gambling transfers decreased \$24 million or 7.0 percent through the year. It is also important to note that those totals do not include transfers from the Budget Stabilization Fund.
- **FEDERAL REVENUE:** Federal revenues decreased \$251 million, or 6.0 percent, as the state paid less Medicaid lapse period bills during fiscal year 2014.
- **OTHER RECEIPTS:** As of the end of June, all other state receipts were up \$80 million, or 2.5 percent from the previous fiscal year. Specifically, 'all other' receipts increased \$120 million due to court settlement proceeds in the first quarter and a one-time repayment from the State Employees Retirement System in March, but this increase was partially offset by decreases in inheritance tax and public utility tax receipts.

## BASE EXPENDITURES

General Funds base spending increased by \$767 million, or 2.1 percent, through the fourth quarter of fiscal year 2014. Spending decreased by \$1.008 billion in April, increased \$84 million in May, and increased \$428 million in June.

- **SOCIAL SERVICES:** Vouchers presented by the Department of Healthcare and Family Services were down \$643 million, or 8.8 percent, this fiscal year.

Approximately half of that decrease was due to fewer lapse period vouchers this year. After twelve months, vouchers presented by the Department of Human Services were down \$255 million, or 7.5 percent, and Department of Children and Family Services expenditures were down \$45 million (6.2 percent). Department on Aging vouchers were the same as last year.

- **EDUCATION:** Vouchers presented by the State Board of Education were up \$152 million, or 2.3 percent, through June. Appropriations for General State Aid for schools increased \$155 million this fiscal year. Vouchers presented by higher education agencies, excluding the retirement system, were up \$42 million or 2.1 percent.
- **RETIREMENT SYSTEMS:** Teachers Retirement System (TRS) vouchers were up \$740 million (26.4 percent) through June and University Retirement System expenditures increased \$18 million (1.4 percent). Vouchers from the State Employees Retirement System were up \$48 million (4.6 percent).
- **ALL OTHER:** CMS vouchers decreased \$8 million (0.5 percent) this fiscal year. Public Act 98-642, enacted in June, appropriated another \$100 million to CMS to pay fiscal year 2014 health insurance claims. "All other" spending was down \$114 million, due to a \$264 million decrease in spending by the IOC as a vouchered transfer to the FY13 Backlog Payment Fund was not repeated.
- **TRANSFERS OUT:** Transfers out for twelve months of fiscal year 2014 decreased by \$466 million (8.6 percent) when compared to those released last year, due primarily to reduced transfers to the Healthcare Provider Relief Fund and the Local Government Distributive Fund.

## WHAT LIES AHEAD

Although the backlog of General Funds

bills was down at the end of fiscal year 2014, many long-term challenges to the state's fiscal health remain.

The stronger than expected revenue performance led to the passage of fiscal year 2014 supplemental appropriations late in the year, included in Public Act 98-642 and Public Act 98-675, totaling \$974 million from the General Funds. Lapse period expenditures are expected to grow substantially from last year since most of these supplemental appropriations have not been vouchered yet. This will lead to some growth in the backlog through the summer.

Looking ahead to fiscal year 2015, a gradual worsening of the budget situation is expected. In January 2015, the income tax rates are scheduled to drop, reducing the flow of income tax revenues into the state treasury. In addition, the fiscal year 2015 General Funds budget utilizes budget gimmicks from the past that helped create Illinois' financial hole. Besides delaying payments and increasing the backlog of payables, the budget relies on \$650 million in inter-fund short-term borrowing from other funds in the state treasury. Any amounts borrowed will need to be repaid, in some cases with interest, within 18 months of the date of the borrowing – i.e. during fiscal year 2016 and fiscal year 2017.

Even with interfund borrowing, the state is expected to see a slow growth in the backlog over the course of the fiscal year. The budgetary decisions made in the 2014 spring legislative session will create a budgeting challenge for fiscal year 2016, when the full impact of the drop in income tax rates will impact the state's revenues. Reductions in income tax revenues and increases in statutory pension contributions and other spending pressures such as Medicaid and health insurance will combine to create a very large budgetary hole that must be addressed. Any of the progress that has been made on the state's fiscal position in recent years has been stymied. ■

**IOC WEBSITE:** [www.illinoiscomptroller.com](http://www.illinoiscomptroller.com)

**FACEBOOK:** <https://www.facebook.com/Comptroller.Judy.Baar.Topinka>

GENERAL FUNDS TRANSACTIONS  
(Dollars in Millions)

	June		Change	Twelve Months		Change	
	2013	2014		FY 2013	FY 2014	Amount	Percent
AVAILABLE CASH BALANCE, BEGINNING	\$ 205	\$ 294	\$ 89	\$ 40	\$ 154	\$ 114	285.0 %
Revenues:							
State Sources:							
Cash Receipts:							
Income Taxes:							
Individual	\$ 1,403	\$ 1,521	\$ 118	\$ 16,538	\$ 16,642	\$ 104	0.6 %
Corporate	459	413	(46)	3,177	3,164	(13)	(0.4)
Total, Income Taxes	1,862	1,934	72	19,715	19,806	91	0.5
Sales Taxes	659	691	32	7,355	7,676	321	4.4
Other Sources:							
Public Utility Taxes	77	55	(22)	1,033	1,013	(20)	(1.9)
Cigarette Taxes	29	29	0	353	353	0	0.0
Inheritance Tax (gross)	20	25	5	293	276	(17)	(5.8)
Liquor Gallonage Taxes	15	15	0	165	165	0	0.0
Insurance Tax and Fees	64	64	0	334	333	(1)	(0.3)
Corporation Franchise Tax and Fees	12	13	1	205	203	(2)	(1.0)
Investment Income	2	2	0	20	20	0	0.0
Cook County IGT	0	0	0	244	244	0	0.0
Other	92	93	1	504	624	120	23.8
Total, Other Sources	311	296	(15)	3,151	3,231	80	2.5
Total, Cash Receipts	\$ 2,832	\$ 2,921	\$ 89	\$ 30,221	\$ 30,713	\$ 492	1.6 %
Transfers In:							
Lottery Fund	\$ 69	\$ 71	\$ 2	\$ 656	\$ 668	\$ 12	1.8 %
State Gaming Fund	33	29	(4)	345	321	(24)	(7.0)
Other Funds	184	111	(73)	952	1,163	211	22.2
Total, Transfers In	\$ 286	\$ 211	\$ (75)	\$ 1,953	\$ 2,152	\$ 199	10.2 %
Total, State Sources	\$ 3,118	\$ 3,132	\$ 14	\$ 32,174	\$ 32,865	\$ 691	2.1 %
Federal Sources	\$ 147	\$ 392	\$ 245	\$ 4,154	\$ 3,903	\$ (251)	(6.0) %
<b>Total, Base Revenues</b>	<b>\$ 3,265</b>	<b>\$ 3,524</b>	<b>\$ 259</b>	<b>\$ 36,328</b>	<b>\$ 36,768</b>	<b>\$ 440</b>	<b>1.2 %</b>
Short Term Borrowing	0	0	0	0	0	0	0.0
Transfer from Budget Stabilization Fund	0	0	0	275	275	0	0.0
Total, Revenues	\$ 3,265	\$ 3,524	\$ 259	\$ 36,603	\$ 37,043	\$ 440	1.2 %
Expenditures:							
By Agency:							
Healthcare and Family Services	\$ 449	\$ 742	\$ 293	\$ 7,317	\$ 6,674	\$ (643)	(8.8) %
State Board of Education	760	772	12	6,534	6,686	152	2.3
Human Services	327	233	(94)	3,419	3,164	(255)	(7.5)
Teachers Retirement	234	288	54	2,801	3,541	740	26.4
University Retirement System	117	126	9	1,298	1,316	18	1.4
All Other Higher Education	30	33	3	1,965	2,007	42	2.1
Corrections	87	93	6	1,157	1,248	91	7.9
State Employees Retirement System	87	91	4	1,049	1,097	48	4.6
Central Management Services	351	101	(250)	1,484	1,476	(8)	(0.5)
Children and Family Services	29	28	(1)	727	682	(45)	(6.2)
Aging	23	78	55	968	968	0	0.0
State Police	23	21	(2)	245	245	0	0.0
All Other	112	131	19	1,821	1,707	(114)	(6.3)
Total	\$ 2,629	\$ 2,737	\$ 108	\$ 30,785	\$ 30,811	\$ 26	0.1 %
Regular Transfers Out	779	402	(377)	5,434	4,968	(466)	(8.6)
Prior Year Adjustments	(1)	0	1	(21)	(60)	(39)	185.7
Vouchers Payable Adjustment	(366)	330	696	(117)	1,129	1,246	N/A
<b>Total, Base Expenditures</b>	<b>\$ 3,041</b>	<b>\$ 3,469</b>	<b>\$ 428</b>	<b>\$ 36,081</b>	<b>\$ 36,848</b>	<b>\$ 767</b>	<b>2.1 %</b>
Transfers to Repay Budget Stabilization	275	275	0	275	275	0	0.0
Transfers to Repay Interfund Borrowing	0	0	0	133	0	(133)	(100.0)
Transfers to Repay Short-Term Borrowing	0	0	0	0	0	0	0.0
Total, Expenditures	3,316	3,744	428	36,489	37,123	634	1.7
AVAILABLE CASH BALANCE, ENDING	\$ 154	\$ 74	\$ (80)	\$ 154	\$ 74	\$ (80)	(51.9) %

GENERAL REVENUE FUND TRANSACTIONS  
(Dollars in Millions)

	June		Change	Twelve Months		Change	
	2013	2014		FY 2013	FY 2014	Amount	Percent
AVAILABLE CASH BALANCE, BEGINNING	\$ 41	\$ 51	\$ 10	\$ 16	\$ 35	\$ 19	118.8 %
Revenues:							
State Sources:							
Cash Receipts:							
Income Taxes:							
Individual	\$ 1,301	\$ 1,410	\$ 109	\$ 15,331	\$ 15,427	\$ 96	0.6 %
Corporate	425	383	(42)	2,945	2,933	(12)	(0.4)
Total, Income Taxes	1,726	1,793	67	18,276	18,360	84	0.5
Sales Taxes	495	519	24	5,516	5,766	250	4.5
Other Sources:							
Public Utility Taxes	69	52	(17)	939	931	(8)	(0.9)
Cigarette Taxes	20	22	2	274	256	(18)	(6.6)
Inheritance Tax (gross)	20	25	5	293	276	(17)	(5.8)
Liquor Gallonage Taxes	15	15	0	165	165	0	0.0
Insurance Tax and Fees	64	64	0	334	333	(1)	(0.3)
Corporation Franchise Tax and Fees	12	13	1	205	203	(2)	(1.0)
Investment Income	2	2	0	19	19	0	0.0
Cook County IGT	0	0	0	244	244	0	0.0
Other	92	93	1	500	620	120	24.0
Total, Other Sources	294	286	(8)	2,973	3,047	74	2.5
Total, Cash Receipts	\$ 2,515	\$ 2,598	\$ 83	\$ 26,765	\$ 27,173	\$ 408	1.5 %
Transfers In	184	111	(73)	952	1,161	209	22.0
Total, State Sources	\$ 2,699	\$ 2,709	\$ 10	\$ 27,717	\$ 28,334	\$ 617	2.2 %
Federal Sources	\$ 147	\$ 392	\$ 245	\$ 4,154	\$ 3,903	\$ (251)	(6.0) %
<b>Total, Base Revenues</b>	<b>\$ 2,846</b>	<b>\$ 3,101</b>	<b>\$ 255</b>	<b>\$ 31,871</b>	<b>\$ 32,237</b>	<b>\$ 366</b>	<b>1.1 %</b>
Short Term Borrowing	0	0	0	0	0	0	0.0
Transfer from Budget Stabilization Fund	0	0	0	275	275	0	0.0
Total, Revenues	\$ 2,846	\$ 3,101	\$ 255	\$ 32,146	\$ 32,512	\$ 366	1.1 %
Expenditures:							
By Agency							
Healthcare and Family Services	\$ 449	\$ 742	293	\$ 7,317	6,674	(643)	(8.8)
State Board of Education	377	370	(7)	2,248	2,244	(4)	(0.2)
Human Services	327	233	(94)	3,419	3,164	(255)	(7.5)
University Retirement System	0	126	126	4	1,316	1,312	32,800.0
All Other Higher Education	4	6	2	502	537	35	7.0
Corrections	87	93	6	1,157	1,248	91	7.9
State Employees Retirement System	87	91	4	1,049	1,097	48	4.6
Central Management Services	351	101	(250)	1,484	1,476	(8)	(0.5)
Children and Family Services	29	28	(1)	727	682	(45)	(6.2)
Aging	23	78	55	968	968	0	0.0
State Police	23	21	(2)	245	245	0	0.0
All Other	115	132	17	1,855	1,746	(109)	(5.9)
Total	\$ 1,872	\$ 2,021	\$ 149	\$ 20,975	\$ 21,397	\$ 422	2.0 %
Regular Transfers Out	1,189	723	(466)	10,618	10,185	(433)	(4.1)
Prior Year Adjustments	(1)	0	1	(10)	(59)	(49)	490.0
Vouchers Payable Adjustment	(483)	121	604	136	737	601	N/A
<b>Total, Base Expenditures</b>	<b>\$ 2,577</b>	<b>\$ 2,865</b>	<b>\$ 288</b>	<b>\$ 31,719</b>	<b>\$ 32,260</b>	<b>\$ 541</b>	<b>1.7 %</b>
Transfers to Repay Budget Stabilization	275	275	0	275	275	0	0.0
Transfers to Repay Interfund Borrowing	0	0	0	133	0	(133)	(100.0)
Transfers to Repay Short-Term Borrowing	0	0	0	0	0	0	0.0
Total, Expenditures	2,852	3,140	288	32,127	32,535	408	1.3
AVAILABLE CASH BALANCE, ENDING	\$ 35	\$ 12	\$ (23)	\$ 35	\$ 12	\$ (23)	(65.7) %